

# Corporate Governance Statement - 2018

This statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2018.

## BOARD OF DIRECTORS

### Board of Directors and its Committees

#### *Role of the Board*

The Board is responsible for the overall corporate governance of the Company and its controlled entities ("the Group"). This begins with setting the right 'tone from the top' and leading by example as to how IMB will manage risk and the expected standards of behaviour to be met by all employees. The Board's role includes formulating its strategic direction and defining risk appetite, approving and monitoring capital expenditure, setting remuneration of the Chief Executive and senior managers, appointing, removing and creating succession policies for directors and senior managers, establishing and monitoring the achievement of management's goals, ensuring the integrity of internal control, legal compliance and management information systems and ensuring a sound risk management culture is maintained. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for the operation and administration of the Company to the Chief Executive and executive management. Responsibilities are delineated by formal authority delegations.

#### *Board Processes*

To assist in the execution of its responsibilities, the Board has established a number of Board committees including an Audit Committee, a Risk Committee, a People & Culture Committee, an IMB Community Foundation Committee, a Capital and Securitisation Committee and an IMB Financial Planning Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds regular scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive. Standing items include the Chief Executive's report, financial statements, strategy review, governance, risk management and compliance. Submissions are circulated in advance to directors. Executives and senior managers are regularly involved in Board discussions and directors have other opportunities including visits to business operations, for contact with a wider group of employees.

#### *Director Education*

The Group has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities on both a personal and group basis, to update and enhance their skills and knowledge.

#### *Independent Professional Advice and access to Company Information*

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the Group's expense. A copy of the advice received is made available to all other members of the Board.

#### *Composition of the Board*

The Board comprises seven independent non-executive directors. The size and composition of the Board is determined by the full Board, subject to the limits imposed by the constitution and compliance with any applicable legislation regarding Board composition.

- Only the Board may nominate an employee for election as a director.
- The Chairman of the Board must be an independent non-executive director.
- Directors are elected at the Annual General Meeting.
- Subject to the constitution, the Board may appoint any person as a director to fill a casual vacancy. The term of office of a director so appointed will end at the start of the next Annual General Meeting after they were appointed to fill a casual vacancy.

A director must retire from office at the start of the third Annual General Meeting after the director was last elected and if eligible, may be re-elected.

In general, up to three full terms are considered to be the maximum period of time to serve on the Board, however the Board may determine to extend the period for which a Director remains in office, for example where their retirement would result in the loss of two (2) or more directors in any twelve month period or the loss of an essential skill set.

An independent non-executive director is a director who is not a member of management and who:

- has not within the last three years been employed in an executive capacity by the Company or another Group member;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;
- is not a material supplier or customer of the Company or another Group member, or is not an officer of or otherwise associated, directly or indirectly, with a material supplier or customer; and
- has no material contractual relationship with the Company or any Group member other than as a director of the Company.

Details of the directors of the Company in office at the date of this statement are included in the 2018 IMB Annual Report.

## People & Culture Committee

In September 2017, the Board resolved to expand the Charter of the previously established Corporate Governance and Remuneration Committee and to rename this Committee the People and Culture Committee. The Committee oversees the development of strategic initiatives focused on developing the skills, experiences, capabilities and cultural attributes required to deliver on IMB's strategic objectives.

The Committee oversees the appointment and induction process for directors and committee members and makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity required by the Board. When a vacancy exists or there is a need for particular skills, the committee in consultation with the Board determines the selection criteria based on the skills deemed necessary and on the Company's Fit and Proper Policy. The committee identifies potential candidates. The Board then appoints the most suitable candidate to fill the casual vacancy. Board appointed candidates must stand for election at the next general meeting of members.

In addition, the committee is responsible for advising the Board on corporate governance, and developing, regularly reviewing and updating the corporate governance manual.

The People and Culture Committee regularly uses an external facilitator for its annual review of the effectiveness of the Board and individual directors. The performance criteria take into account each Director's contribution in setting the direction, strategy and financial objectives of the Group, and monitoring compliance with regulatory requirements and ethical standards.

The People and Culture Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive and senior managers and the Board. A key part of the committee's role is to ensure that such remuneration arrangements promote prudent risk taking in the management of IMB and to seek input from the Chairman of the Risk Committee and the Chief Risk Officer as appropriate. From time to time the committee may obtain independent advice on the appropriateness of remuneration packages.

The committee is responsible for the selection, appointment and succession planning process of the Company's Chief Executive. This includes ensuring there are effective development programs for senior executives and employees that hold key roles within the organisation.

The committee also conducts an annual review of the performance of the Chief Executive and makes appropriate recommendations to the Board in respect of such performance evaluations.

During the year, the Committee was responsible for overseeing the requirements of the Remuneration Policy for the Board, Chief Executive and senior managers to meet APRA's remuneration requirements under CPS 510 Governance.

The members of the People and Culture Committee during the year were:

Ms GM McGrath (Chair from 1 November 2017)

Mr NH Cornish

Ms JM Swinhoe

Ms CA Aston

The People and Culture Committee generally meets four times annually or more frequently as required. The committee met four (4) times during the year and committee member attendance is disclosed in the table of Directors' meetings in the 2018 IMB Annual Report.

The Chief Executive, Mr RJ Ryan, is invited to People and Culture Committee meetings as required to discuss management performance and remuneration packages but does not attend meetings involving matters pertaining to himself.

## Audit Committee

The Audit Committee has a documented charter, approved by the Board. At least three members must be independent non-executive directors and at least one member shall also be a member of the Risk Committee. The Chair must not be the Chair of the Board.

The members of the Audit Committee during the year were:

Ms CA Aston (Chair from September 2017)

Mr RHP Elvy (retired August 2017)

Ms ME Towers

Mr PJ Fitzgerald (member from September 2017)

The internal and external auditors, the Chief Executive, Chief Financial Officer and the Chief Risk Officer, are invited to Audit Committee meetings at the discretion of the committee. The committee met four times during the year and committee member attendance is disclosed in the table of Directors' meetings in the 2018 IMB Annual Report.

The external auditor met with the Audit Committee twice during the year without management being present.

The Chief Executive and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial statements for the year ended 30 June 2018 comply with accounting standards, international financial reporting standards, and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The responsibilities of the Audit Committee include:

- reviewing the annual and half year reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether financial information is adequate for Member needs;
- assessing management processes supporting external reporting;
- assessing the performance and objectivity of the internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the Board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Prudential Regulation Authority and the Australian Securities and Investment Commission.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them four times a year to:

- discuss the external audit and internal audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review fees proposed for audit work to be performed;
- review the draft annual and half-year financial statements, and recommend Board approval of the financial statements; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made.

The Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner.

Consistent with this function, the committee encourages continuous improvement of, and fosters adherence to, the Company's policies, procedures and practices at all levels.

## Risk Committee

The Risk Committee has a documented charter, approved by the Board. At least three members must be independent non-executive directors.

The members of the Risk Committee during the year were:

Ms ME Towers (Chair)

Mr JR Coleman

Ms JM Swinhoe

Ms GM McGrath

The Chief Executive, Chief Financial Officer and the Chief Risk Officer, are invited to Risk Committee meetings at the discretion of the committee. The committee met five times during the year and committee member attendance is disclosed in the table of Directors' meetings in the 2018 IMB Annual Report.

The responsibilities of the Risk Committee include:

- oversight of the risk profile and risk management of the IMB Group within the context of the Board approved risk appetite for each type of risk;
- making recommendations to the Board on IMB's overall current and future risk appetite and risk management strategy;
- establishing a Group wide view of the IMB's current and future risk position relative to risk appetite and capital strength;
- oversight of senior management's implementation of the risk management strategy;
- oversight of the implementation and review of risk management and internal compliance and control systems throughout the IMB Group;
- constructive review and challenge of senior management's proposals and decisions on all aspects of risk management arising from IMB's activities;
- assessing the performance of the Chief Risk Officer and the risk function; and
- promoting the awareness of a risk based culture and the achievement of a balance between risk and reward.

The Risk Committee conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner.

Consistent with this function, the Risk Committee encourages continuous improvement of, and fosters adherence to, the IMB Group's risk appetite, policies, procedures and practices at all levels.

### *Oversight of Risk Management Framework*

The Board oversees the establishment, implementation and annual review of the Group's Risk Management Framework. Management has established and implemented the Risk Management Framework for assessing, monitoring and managing its key risks including credit risk, operational risk, market risk, financial reporting and compliance risks for the Group.

The Risk Committee ensures the Group maintains an appropriate risk management framework including the establishment of policies for the control of risk. The Risk Committee receives information on the risk profile of the Group, any breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to the risk management policies and framework.

### *Three Lines of Defence*

The Group employs the three lines of defence approach to risk management to ensure adequate and appropriate risk governance across all levels and key classes of risk. The three lines of defence are:

- Line 1 – Business units including the front line, working within defined limits, are responsible for risk identification, risk management and maintaining effective controls;
- Line 2 – Risk function supported by business unit risk areas and the Executive Risk Committee responsible for establishing and maintaining the risk management framework and providing independent risk oversight; and
- Line 3 – Internal Audit responsible for providing independent assurance on the adequacy of the Group's risk management processes and controls.

### *Risk Profile*

The Risk Committee reports to the Board quarterly on the status of risks through risk management programs aimed at ensuring that risks are identified, assessed and appropriately managed within the Group's risk appetite.

In line with the three lines of defence approach to risk management, each business unit is responsible and accountable for implementing and managing the standards required by the program.

Major risks arise from such matters as actions by competitors, government policy changes, the impact of interest rate movements, occupational health and safety, property, financial reporting and the purchase, development and use of information systems.

### *Risk Management Function*

The Group's approach to risk management is embedded across all business units. The Risk Management function assists the Risk Committee oversee the risk appetite and profile of the Group and ensures that business developments are consistent with the risk appetite and goals of the Group.

### *Risk Management and Compliance and Control*

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under five headings:

- Financial reporting - there is a comprehensive budgeting system with an annual budget approved by the Board. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Group reports to Members half-yearly.
- Approval levels - delegated authority is given to nominated officers to perform the daily operations of the Company. Maximum loan approval limits are delegated subject to the qualifications and experience of the nominated officer. Cheque signatory authority for the various Company bank accounts are also delegated to nominated officers subject to experience and task related need. The delegated authority for each of these is reviewed on a quarterly basis. Authority to incur expenditure and also capital commitments is delegated to nominated senior officers. The Board reviews these levels on a regular basis and changes are only made following a recommendation from the Chief Executive.
- Operating unit controls - financial controls and procedures including information systems controls are detailed in procedures manuals.
- Functional speciality reporting - the Group has identified a number of key areas which are subject to regular reporting to the Board such as risk management levels pertaining to liquidity risk, market risk, credit risk, data risk and operations risk. The Board reviews each of these areas monthly and the risk policies underlying the reports at least annually. In addition to the review of risk management levels and the financial reporting described above, other key matters reviewed monthly are the level of arrears on the loan portfolio as well as specific loan performance where deemed applicable.
- Investment appraisal - the Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired.

Comprehensive practices are in place such that workplace health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.

Formal appraisals are conducted at least annually for all employees. A succession plan is in place to ensure competent and appropriately experienced employees can fill senior positions on a short term and/or permanent basis when retirements or resignations occur.

## Assessment of Effectiveness of Risk Management

As the third line of defence, Internal Audit provides an independent review and challenge of IMB's risk management framework and supporting processes and systems to ensure they remain effective.

## Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they refer any issues arising from their employment.

### Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that an actual or potential significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered. Details of director related entity transactions with the Company and Group are set out in Note 27 to the financial accounts.

### Code of Conduct

All directors and staff of IMB are expected to exercise the highest standards of integrity and behaviour in the course of their employment with IMB. The Code of Conduct articulates IMB's values, ethics and philosophy that underpin risk culture, business decision making and behaviour. The Code provides guidelines that outline expected standards of conduct.

Directors are also expected to abide by the Australian Institute of Company Directors' Code of Conduct.

### Whistleblowing

Under the IMB Whistleblower Policy, staff are encouraged, and have the responsibility to report any known or suspected incidences of improper conduct. Reportable conduct may include suspected breaches of policy or compliance obligations, fraudulent or dishonest behaviour, as well as other types of unethical behaviour or serious improper conduct.

Employees who raise concerns may choose to involve the Whistleblower Protection Officer, who is responsible for protecting the employee or contractor against reprisal as a result of making a report.

Concerns are investigated in a manner that is fair and objective to all people involved. If the investigation shows that wrongdoing has occurred, IMB is committed to changing processes and taking action in relation to employees or contractors who have behaved incorrectly. Outcomes may also involve reporting the matter to relevant authorities and regulators.

Statistics about concerns raised are reported quarterly to both the Board Risk Committee and the Executive Risk Committee.

## Dealings in Company Securities by Directors and Selected Officers and their Associates

The Board applies the following policy in respect of dealings in securities of the Company by directors, selected officers (being members of the executive group and other person or persons in the employ of the Company nominated by the Chief Executive) and their associates.

- Purchase or sale of IMB Ltd ("Company") shares is permitted within six weeks after announcements (a "trading window") subject to prior advice by the Director or Selected Officer to the Company Secretary who will notify the Chairman (or in the case of proposed trade by the Chairman or a related entity of the Chairman, the Chairman of the Audit Committee).
- Purchase or sale of Company shares is permitted outside a trading window only with the prior consent of the Board who will examine the transaction (and any information known by the director or officer) prior to giving approval, to ensure that the transaction is not related to inside information, nor could be seen to be related to such information.
- Generally, transactions in Company shares within a period of two months leading up to an announcement will not be approved.

The above guidelines extend to sale and purchase of Company shares by directors and selected officers personally, by directors' and selected officers' spouses and dependent children, and by any company in which a director or selected officer holds a majority of the shares. It will also extend to any company in which a director or selected officer is an officer (director, secretary, executive officer or employee), unless effective conflict of interest arrangements are in place. It is the responsibility of each Director and selected officer to avoid or manage a conflict of interest. As guidance, a conflict of this nature may be able to be effectively avoided or managed by:

- the Director or selected officer not being present at any meeting in which the purchase or sale of Company shares is discussed or approved;
- the Director or selected officer not taking part in the company's decision to buy or sell the Company shares; and
- the Director or selected officer ensuring that they do not pass inside information to those in the company making the decision in relation to the sale or purchase of Company shares.

It is the responsibility of the director or selected officer to ensure the order to purchase or sell expires no more than six weeks after the relevant announcement is made.

The above guidelines also apply to transactions in debentures, stocks, bonds, notes, options and other securities of the Company, but will not apply to any election made to acquire shares or other securities under the terms of any plan for the reinvestment of dividends or the issue of bonus shares in lieu of dividends or the issue of shares under the employee share scheme.

These guidelines do not apply to transfers between a Director or selected officer and their associated entities that do not change the aggregate holding of the parties to the transaction.

## Gender Equality Reports

Reports completed by IMB Ltd under the Workplace Gender Equality Act 2012 can be accessed from the Company's website at <http://www.imb.com.au/about-us-investor-centre-financial-reports.html>

## Communication with Members

The Board provides Members with information via its Continuous Disclosure Policy. This policy is in place to:

- identify matters that may have a material effect on the price or value of IMB shares or any quoted and unquoted securities; and
- ensure disclosure of such matters to ASIC, with subsequent disclosure to IMB Members.

In summary, the Company's Continuous Disclosure Policy operates as follows:

- on a weekly basis the Company's Executive Group examines all areas of the Group's internal and external environment to determine whether any "price sensitive" matters exist; and
- the Executive Group is responsible for interpreting the Company's Continuous Disclosure Policy, and where necessary, informing the Board so that the Board can determine if disclosure is necessary. The Board will then appoint a representative who is responsible for any necessary communications with ASIC and subsequently with Members.

The Board of Directors also aims to ensure that Members are informed of all major developments affecting the Group's state of affairs. Information is communicated to Members as follows:

- All disclosures of "price sensitive" information are made via the IMB website, together with media releases, public announcements and other information concerning the Group's operations.
- Public release of performance results, plus declared dividends as soon as available.
- A full copy of the annual report is made available to all Members via the Company's website and upon request.

- The annual report is distributed to all Members who have elected to receive this document. This document is also available to any other Member upon request. The Board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to the other disclosures required by the Corporations Act 2001.
- The half-yearly report is distributed to all Members who have elected to receive this document. This document is also available to any other Member upon request. This document contains summarised financial information and a review of the operations of the Group during the period. Half-year financial statements are prepared in accordance with Australian Accounting Standards and relevant legislation and contain an independent review report from the external auditor.
- All of the above information, including that of the previous three years, is made available on the Company's website ([imb.com.au](http://imb.com.au)).
- Proposed changes to the constitution of the Company are submitted to a vote of Members.

The Board encourages full participation of members at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategies and goals. To assist Members in communicating issues with the Board, a question form is issued with the AGM notice and Members are invited to submit questions in advance. The most commonly raised issues are addressed at the AGM.

The Members may also be requested to vote on the appointment and aggregate remuneration of directors where required by the constitution. Copies of the constitution are available to any Member who requests it.